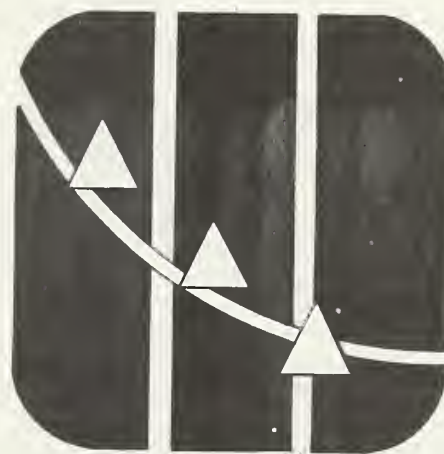


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DEMAND AND PRICE Situation



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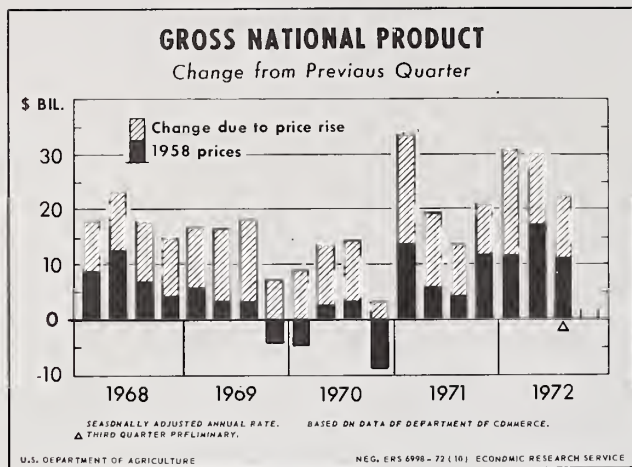


Figure 1

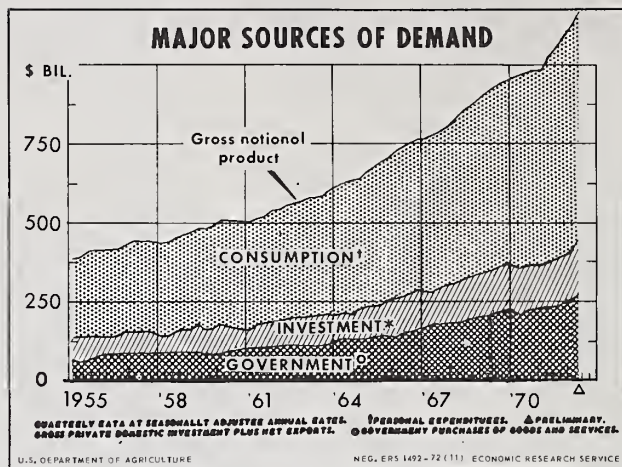


Figure 2

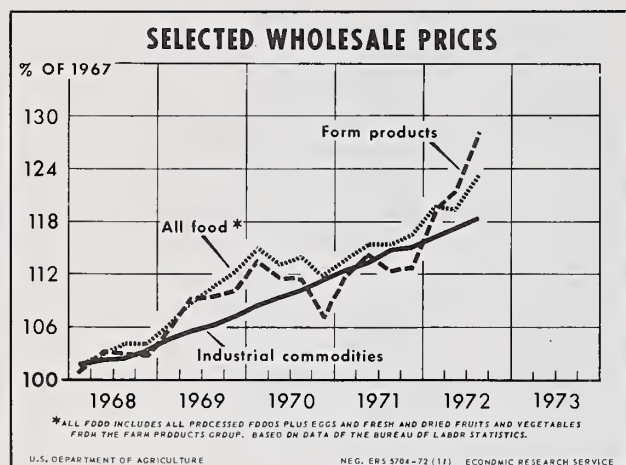


Figure 3



Figure 4

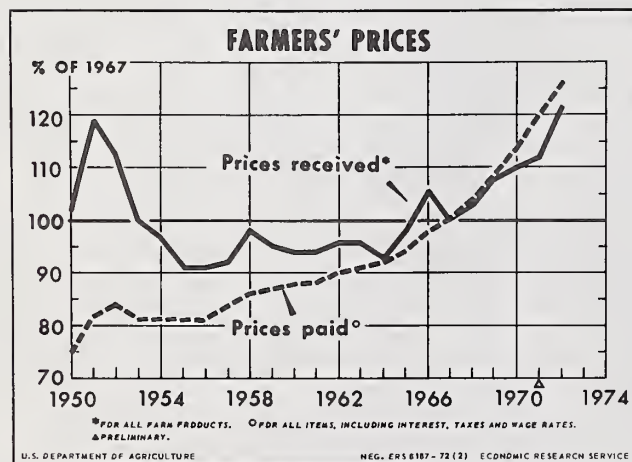


Figure 5

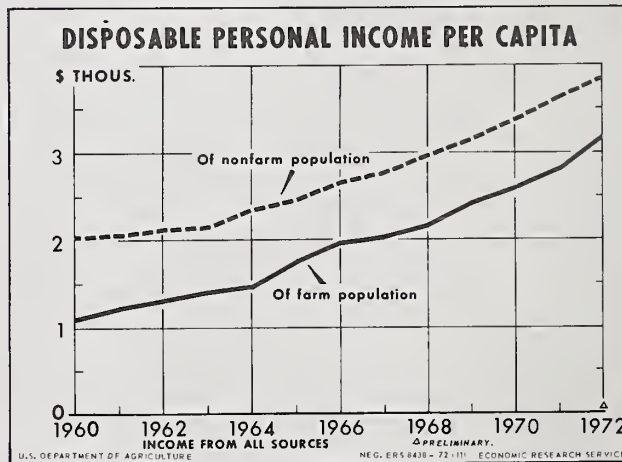


Figure 6

DEMAND AND PRICE SITUATION

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SUMMARY

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Approved by
Outlook and Situation Board
and Summary released
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The *Demand and Price Situation* is published in
February, May, August, and November.

Farmers this year are realizing record net farm incomes, up \$2¼ billion from last year's \$16.1 billion and well above the previous record of \$17.1 billion achieved in 1947. With continued strong domestic demand and a record \$10 billion fiscal 1973 total expected for agricultural exports, farmers can look forward to incomes near the current high level through most of 1973.

Prices received for all farm products are averaging about 10% higher this year. Total cash receipts from livestock and product marketings are heading toward \$34¼ billion, up more than \$4 billion from 1971. Crop marketing receipts are expected to be slightly above the 1971 level of \$22.6 billion. Direct government payments to farmers will be up around \$1 billion. Gains in gross income will outpace an increase of almost \$3 billion in production expenses, permitting the sharp rise in realized net farm income.

The economy continues to move ahead at a brisk pace this fall. Gross national product in 1972 will total about 9½% above 1971. Prices are expected to rise nearly 3½% so that real output may be up 6%. In 1973 the economy is expected to continue strong although inflation and rising interest rates are two cloudy areas.

Both consumer spending and business investment are strong elements in the national economy and are expected to hold up well in the next several months. Housing has lost some of the steam of previous quarters but it is still a booming sector of the economy.

The balance of trade continues in deficit, but the situation is now less precarious; the deficit in the third quarter was much smaller than in the first 2 quarters this year.

Price increases at both wholesale and retail levels are running smaller than in the first half of 1971, but there are still a few goods and services for which prices are rising rather sharply. Food prices in early 1973 will be higher, but the rise likely will be under the 4 to 4½% increase estimated for all of 1972 and below the rate of 1972's first half.

Industrial production and total employment are rising, but capacity utilization is still less than 85% and the unemployment rate has yet to dip below 5½%. Improvement on both these fronts is expected as economic activity gains momentum in the first half of 1973.

The money supply rose sharply early this year but more slowly after midyear. General demand for funds continues strong, so short-term interest rates have been rising. They will likely rise further as money markets tighten, but the situation will not likely deteriorate to the "credit-crunch" situation of 1969/70.

Exports of U.S. agricultural commodities totaled a record \$2,076 million in July-September 1972, up over 11% from a year earlier. Sharper gains over last year are in prospect for much of 1973 with the grain sales to the USSR the major ingredient. Agricultural exports for the current fiscal year ending next June 30 are expected to total about \$10 billion, sharply above the previous record high of \$8.1 billion last fiscal year. Agriculture's contribution to the U.S. trade balance could be at an all-time high, \$3.5 billion compared with \$2.0 billion last year. This contribution partially offsets the unfavorable nonfarm trade balance, which was \$7.1 billion in 1971/72. Two-thirds of this year's increase in farm exports will be due to increased volume (primarily of grains, soybeans, and cotton) and one-third to higher prices. The attainment of this record volume of exports will require coordinated movement and avoidance of bottlenecks.

.... Outlook for major farm commodities

.... *Hog* slaughter continues much below a year ago. As a result the seasonal price decline this fall will be somewhat smaller than usual. Winter and spring prices may average near or above a year earlier.

.... *Fed cattle* marketings this fall are running moderately over the same period a year ago. Continued strong consumer demand will likely result in somewhat higher average prices in the first half of 1973 than a year earlier.

.... *Broiler* production continues at record levels. Prices should continue to average above a year ago with red meat prices remaining strong.

.... *Turkey* crop is largest on record. Prices have strengthened since midyear and will average near year-earlier levels in coming months.

.... *Egg* production has eased as the reduction in layer numbers has more than offset the record rate of

lay. Egg prices have gained in recent weeks and for fall and winter will average well above the depressed levels of a year earlier.

.... *Milk* production is showing a slight advance from 1971. Increased marketings and higher prices are resulting in a moderate increase in dairymen's cash receipts in 1972. Rising feed prices and poor quality forage in some areas are expected to limit increases in milk production in 1973.

.... *Feed grain* production is down from last year's record level, but both domestic and foreign demands are up. Prices will average higher than last year. Corn and sorghum prices this fall are already considerably above a year ago.

.... *Wheat* supplies slightly exceed last season as a large carryover more than offset a smaller 1972 crop. Sharp increases in exports, largely due to USSR purchases, will result in a record disappearance, causing a sharp drawdown in carryover next summer.

.... *Soybean* supplies will be up significantly from last year with larger production more than offsetting a reduction in carryover stocks. But with domestic and foreign demand remaining strong, supplies will remain tight and prices will average above last year.

.... *Cotton* carryover will be up next summer. Sharp increases in this year's production will exceed the prospective increases in disappearance. Exports are expected to improve in 1972/73.

.... *Tobacco* supplies are down in 1972/73 because of a reduced carryover and a production which is totaling near the 1971/72 level. Further reductions in carryover are expected by the end of the crop year since total disappearance may increase a little.

.... *Fresh vegetable* production this fall is down slightly; the seasonal price rise may be less pronounced than last season. Total *processed vegetable* supplies are only slightly larger than in 1971, putting upward pressure on prices.

.... *Citrus* production is estimated up sharply. Record orange production is in prospect for 1972/73. Grapefruit supplies will be down slightly from last year's record crop.

Table 1.--Selected measures of economic activity

Item	Unit	Year	1971				1972			
			I	II	III	IV	I	II	III	1/
Gross national product.....	Bil. dol.	1,050.4	1,023.4	1,043.0	1,056.9	1,078.1	1,109.1	1,139.4	1,162.2	
Disposable personal income.....	Bil. dol.	744.4	725.7	742.9	750.4	758.5	770.5	782.6	798.7	
Personal consumption expenditures.....	Bil. dol.	664.9	648.0	660.4	670.7	680.5	696.1	713.4	728.1	
Food spending (excluding alcoholic beverages).....	Bil. dol.	117.3	116.5	116.9	117.3	118.3	120.6	124.0	125.2	
Implicit price deflator for GNP.....	1958=100	141.6	139.8	141.3	142.4	142.9	144.7	145.3	146.1	
Unemployment rate 2/.....	Percent	5.9	6.0	6.0	6.0	5.9	5.8	5.7	5.6	
Cash receipts from farm marketings.....	Bil. dol.	53.1	51.9	52.1	53.4	54.9	56.5	56.9	58.1	
Nonmoney income and government payments.....	Bil. dol.	7.0	7.1	7.0	7.0	6.9	7.6	7.9	8.0	
Realized gross farm income.....	Bil. dol.	60.1	59.0	59.1	60.4	61.8	64.1	64.8	66.1	
Farm production expenses.....	Bil. dol.	44.0	43.2	43.7	44.3	44.9	45.6	46.5	47.3	
Farmers' realized net farm income.....	Bil. dol.	16.1	15.8	15.4	16.1	16.9	18.5	18.3	18.8	
Agricultural exports 3/.....	Bil. dol.	7.8	2.0	1.9	1.9	1.9	2.2	2.1	2.1	
Agricultural imports 3/.....	Bil. dol.	5.8	1.4	1.6	1.7	1.1	1.7	1.5	1.6	
Volume of farm marketings.....	1967=100	111	95	83	113	151	96	83	110	
Livestock and products.....	do.	107	103	105	109	114	102	105	108	
Crops.....	do.	115	84	55	118	201	89	54	113	
Prices received by farmers 4/.....	do.	112	110	112	112	115	120	122	128	
Livestock and products.....	do.	116	114	114	116	120	129	128	136	
Crops.....	do.	107	105	110	107	108	110	114	117	
Prices paid by farmers 4/ 5/.....	do.	120	118	120	120	121	124	125	127	
Wholesale price index, all commodities 4/.....	do.	113.9	112.5	113.8	114.7	114.8	117.0	118.5	119.9	
Consumer price index, all items 4/.....	do.	121.3	119.5	120.8	122.0	122.7	123.7	124.7	125.8	
All food.....	do.	118.4	116.1	118.4	119.6	119.4	121.6	122.6	124.5	
Food at home.....	do.	116.4	114.1	116.6	117.7	117.2	119.8	120.5	126.2	

1/ Preliminary. 2/ Unemployment as a percent of the civilian labor force. 3/ Actual values, not seasonally adjusted annual rates. 4/ Not seasonally adjusted. 5/ Including interest, taxes, and wage rates. Quarterly data seasonally adjusted except as noted.

Departments of Agriculture, Commerce, and Labor.

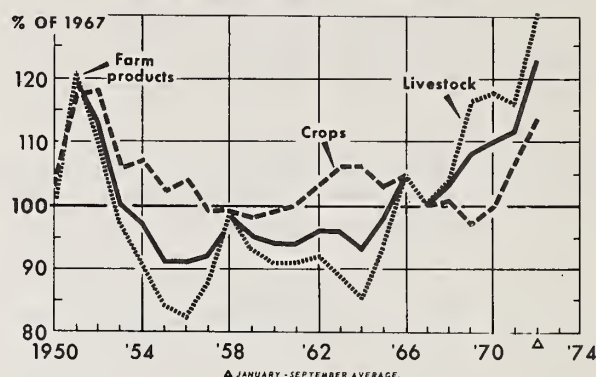
AGRICULTURAL SITUATION

Strong foreign and domestic demand highlight developments in the agricultural sector. With demand stronger and 1972 crop production about the same as the record levels of last year, crop prices will average around 5% above 1971. Livestock prices are likewise benefiting from strong consumer demand. Prices received by farmers for livestock and products will average nearly 14% above last year. Livestock and product prices are expected to continue the same to slightly higher as supplies continue near last year's levels.

With the crop and livestock product markets responding to the strong consumer demand, cash receipts and farmers' net income will be substantially higher in 1972 than a year earlier. Realized net farm income will be around \$24 billion over 1971, establishing a new record level.

Price strength may continue in both the crop and the livestock product markets into 1973, but the outlook is for smaller increases than in early 1972. While significant gains are expected in egg prices, the remainder of the

PRICES RECEIVED BY FARMERS



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security benefits, longer workweeks, and higher wages, in the remaining weeks of 1972 will boost the annual average around 6½% above 1971.

Consumer outlays for food are currently at a \$125.2 billion annual rate, up 6.7% from a year earlier. Third quarter expenditures were 1% above the second quarter almost entirely because of price increases. Total food expenditures will likely rise by 5½% this year over 1971 with price increases accounting for 80% of the increase.

Per capita food consumption is nearly matching the record level of 1971. Small reductions are occurring in red meat and fruit consumption while per capita poultry and fish consumption is increasing.

Prices of all food at retail increased 1.5% in the third quarter, averaging 4.1% over a year ago; food at home was up 1.7% from the second quarter. Meat prices led the quarter to quarter increase with pork rising 7.5% from the second quarter. Sharp third quarter increases also occurred for fresh fruit partly because of seasonal factors and partly because production of noncitrus fruits was down 19% from last year. Meat, fish, fruit, and vegetable prices were well above year-earlier levels last quarter. Potato prices were higher this year than last year in response to smaller supplies.

As food supplies expand this fall, retail food prices will ease slightly. For the year 1972 the all-food price index will average more than 4% higher than in 1971.

Supply and Utilization of Agricultural Commodities

Total new supply of agricultural commodities is outpacing utilization to some extent in 1972. Total production is near the record output of last year and the volume of imports is running higher (table 2).

Prices received by farmers, change from a year earlier¹

Month	All crops	Livestock and products
	Percent	Percent
January 1972	8.8	14.5
February	4.8	12.0
March	0	12.2
April	3.7	9.6
May	4.5	13.2
June	2.7	15.9
July	6.4	19.3
August	11.2	15.4
September	12.5	17.1
October	9.4	16.9

¹Percent changes computed from indices on 1967 base.

livestock group should average around the 1972 price level. Grain exports will continue to strengthen the crops market.

Domestic Demand Strengthening

Increasing employment, higher wage rates, and longer workweeks have brought further increases in personal income and domestic demand. Consumer purchases of food, alcoholic beverages, clothing, shoes, and tobacco continued strong in the third quarter rising to \$220.9 billion (seasonally adjusted annual rate) up 1% from the second quarter.

Disposable personal income in the third quarter was up 6.4% from a year ago. A 20% increase in social

Table 2.--Livestock, crop, and total farm commodities: Supply-utilization indexes by component and relationship of components to annual utilization, 1967-72 1/

Year	Supply			Total annual utili- zation	Utilization					Exports and ship- ments 4/
	Produc- tion	Imports 2/	Stocks 3/		Domestic use				Total	
					Food	Nonfood		Seed and feed		
						Civilian	Military			
A.--All farm commodities indexes: (1967=100) 5/										
1967	100.0	100.0	100.0	100.0	100.0	100.0	---	100.0	100.0	100.0
1968	101.2	111.8	101.6	102.0	102.4	97.9	---	101.5	102.2	100.5
1969	101.2	101.6	103.9	101.4	104.4	83.4	---	97.1	103.1	90.7
1970	99.4	103.5	105.3	103.9	105.8	70.2	---	90.4	103.3	107.7
1971 6/	107.9	106.8	99.4	106.3	109.0	62.9	---	88.3	105.7	109.9
1972 6/	107.7	109.7	103.9	108.2	108.8	57.0	---	88.7	105.5	125.1
Livestock commodities (1967=100)										
1967	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1968	100.5	114.1	123.9	102.3	102.2	96.8	96.6	109.6	102.3	106.8
1969	100.9	110.6	110.5	102.6	103.1	85.3	100.0	101.6	102.5	103.9
1970	103.4	114.2	95.8	104.5	105.8	71.6	102.0	91.2	104.4	107.9
1971 6/	106.2	102.9	102.4	106.9	108.7	61.8	100.1	75.6	106.4	128.8
1972 6/	105.9	112.3	99.7	107.2	109.4	55.7	104.3	71.2	106.8	123.0
Crop commodities (1967=100)										
1967	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1968	102.9	111.1	100.9	102.4	103.0	90.8	104.0	99.7	102.9	99.8
1969	104.4	98.8	103.7	102.9	107.3	76.3	108.3	96.2	106.0	89.2
1970	100.5	100.2	105.6	106.1	105.8	64.9	111.5	90.2	105.7	107.6
1971 6/	111.6	107.9	99.3	108.2	109.5	67.2	113.5	91.0	108.3	107.9
1972 6/	112.1	108.9	104.0	111.4	107.6	61.8	114.8	92.5	108.3	125.3
B.--All farm commodities: Percentage of annual utilization 5/										
1967	89.9	11.0	-.9	100.0	74.7	1.7	---	9.9	86.3	13.7
1968	89.1	12.1	-1.2	100.0	75.0	1.6	---	9.9	86.5	13.5
1969	89.6	11.1	-.7	100.0	76.9	1.4	---	9.5	87.8	12.2
1970	85.9	11.0	3.1	100.0	76.1	1.1	---	8.6	85.8	14.2
1971 6/	91.2	11.1	-2.3	100.0	76.6	1.0	---	8.2	85.8	14.2
1972 6/	89.4	11.2	-.6	100.0	75.1	.9	---	8.1	84.1	15.9
Livestock commodities: Percentage of annual utilization										
1967	96.3	4.5	-.8	100.0	90.2	2.3	2.0	3.1	97.6	2.4
1968	94.6	5.0	.4	100.0	90.1	2.2	1.9	3.3	97.5	2.5
1969	94.7	4.8	.5	100.0	90.6	1.9	2.0	3.1	97.6	2.4
1970	95.3	4.9	-.2	100.0	91.2	1.6	2.0	2.7	97.5	2.5
1971 6/	95.6	4.3	.1	100.0	91.7	1.3	1.9	2.2	97.1	2.9
1972 6/	95.1	4.7	.2	100.0	92.0	1.2	2.0	2.1	97.3	2.7
Crop commodities: Percentage of annual utilization										
1967	88.1	12.6	-.7	100.0	33.8	.5	35.5	12.0	81.8	18.2
1968	88.5	13.7	-2.2	100.0	34.0	.5	36.1	11.7	82.3	17.7
1969	89.4	12.1	-1.5	100.0	35.2	.4	37.4	11.2	84.2	15.8
1970	83.5	11.9	4.6	100.0	33.8	.3	37.3	10.2	81.6	18.4
1971 6/	90.8	12.6	-3.4	100.0	34.2	.3	37.3	10.1	81.9	18.1
1972 6/	88.7	12.3	-1.0	100.0	32.6	.3	36.6	10.0	79.5	20.5

1/ Quantities weighted by constant farm prices. Domestic use allocated on the basis of value of processed products. Net concept excludes domestic use of feed and seed to avoid double counting of livestock products. On 50-State basis. 2/ Includes shipments from U.S. Territories. 3/ Farm (other than live animals), commercial, and government program holdings. Section A: Derived by applying annual changes to January 1961 level to avoid inconsistent coverage. Section B: Data represent stock changes; negatives indicate stock increase; positives signify withdrawals. 4/ Includes shipments to U.S. Territories. 5/ Feed and seed omitted from all commodities to avoid double counting of use through livestock. 6/ Preliminary.

Total utilization of farm commodities is expected to total slightly more than in 1971, but this will not prevent a further buildup in stocks. Exports account for all of the increase in utilization with a 14% rise over the 1971 level. Domestic use is declining slightly this year with civilian food, military food, and nonfood uses all lower than a year ago. Civilian food use is again accounting for three-fourths of the total utilization this year and exports are reaching 16% of the total.

The decline in production has come entirely from the livestock sector, more than offsetting a near-record output of crops. Larger outturns of cotton and soybeans have more than made up for smaller production of food and feed grains.

Utilization of crop commodities for 1972 is up about 3%, overcoming a slight decline for livestock commodities. Exports of crop commodities are up 16%, while exports of livestock products are off some from 1971.

Farm Exports at Record High

U.S. exports of farm products during the first quarter of the fiscal year 1973 rose to a record \$2,076 million, up over 11% from a year earlier. The principal reason for the substantial increase was grain exports which were up one-third. Exports of soybeans, soybean products, and cotton were down sharply because of reduced supplies available for export during the July-September quarter. But in the fiscal year ending next June 30 U.S. agricultural exports are expected to total about \$10 billion, almost \$2 billion above the previous record high in 1971/72.

Poor grain harvests in the USSR and reduced supplies of feed grains available for export in Argentina and Australia were the major catalysts in the first quarter export activity. Additionally, economic conditions have improved in recent months in most of the countries including our major markets.

Exports of wheat and products advanced to 214 million bushels in the first quarter from 164 million a year earlier. Demand for wheat will be especially strong this year with the purchases by the USSR now estimated at over 400 million bushels for 1972/73.

U.S. exports of feed grains, which were hampered by dock strikes last year, should continue strong. Exportable supplies in some major grain producing countries are tight while some countries with exportable grain have limited transportation and port facilities. In the first quarter of fiscal year 1973 feed grain exports totaled 8.3 million metric tons nearly double the 4.5 million in the same period a year ago. Corn accounted for most of the increase and totaled 269 million bushels in July-September compared with last year's 145 million bushels.

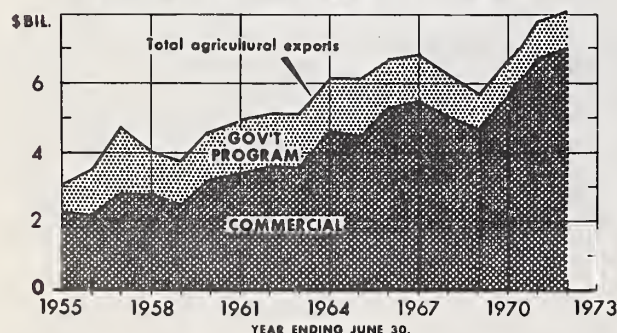
With supplies limited during the summer, exports of soybeans and products were held to a relatively low level, falling 25% during July-September. But current demand is unusually strong, both in the United States and in the major world markets and soybean exports are now increasing rapidly. For the entire year they will achieve a new record - possibly totaling about 500 million bushels compared with 410 million in the 1971/72 marketing year. Soviet purchases of U.S. soybeans will total at least 40 million bushels. Rice exports rose to 11 million bags (milled basis) compared with 8 million in the first quarter of 1971/72.

U.S. agricultural exports, value of major commodities

Commodity	July-September		Percent- age change
	1971	1972 ¹	
	Million dollars	Million dollars	Percent
Animals and animal products	212	251	18
Cotton	104	43	-59
Feed grains, excluding products	259	445	72
Fruits	81	121	49
Soybeans	306	229	-25
Tobacco, unmanufactured	172	142	-17
Vegetables	34	45	32
Wheat and flour	280	363	30
Rice	64	91	42
Other	364	346	-5
Total exports	1,876	2,076	11

¹ Preliminary.

U.S. AGRICULTURAL EXPORTS: COMMERCIAL AND UNDER GOVERNMENT PROGRAMS



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Combined exports of fruits and vegetables hit a record \$166 million, sharply above \$115 million a year earlier, with most of the increase coming in the fresh fruits and vegetables. Exports of animals and animal products gained 18% to \$251 million from \$212 million a year earlier. Increased foreign demand and higher prices accounted for most of the rise. Butter exports led a decline in exports of dairy products. While tobacco exports stayed near the 1971/72 annual rate, cotton exports were down sharply. Relatively large cotton exports during the past 2 years, combined with 3 years of below-average output, have sharply reduced U.S. cotton stocks. Current production is up a little over 3 million bales, so more cotton will be available this year. Demand for U.S. cotton will be slightly stronger with exports expected to increase.

Imports Move Lower

U.S. agricultural imports during the first quarter of fiscal year 1973 totaled \$1,582 million, about 7% lower than the corresponding period last year when imports were inflated in anticipation of dock strikes. Although beef and veal imports were up 10% over last year and inflows of dairy products and fruits and vegetables were larger, they were more than offset by reductions in sugar, wine, tobacco, coffee, tea, and rubber.

Competitive farm products advanced only slightly to \$1,042 million from the \$1,024 million of a year ago. Noncompetitive items were down to \$540 million from \$670 million for the first quarter of 1971/72.

The U.S. agricultural trade balance continued to climb to \$494 million, up from \$181 million for the same period a year ago.

U.S. agricultural imports, value of major commodities

Commodity	July-September		Percent- age change
	1971	1972 ¹	
	Million dollars	Million dollars	Percent
Supplementary			
Animals and animal products	434	474	9
Fruits	31	34	10
Oilseeds and oil products	40	49	22
Sugar and molasses	267	246	-8
Tobacco, unmanufactured ..	53	38	-28
Vegetables	42	49	17
Wines and malt beverages ..	71	61	-14
Other	86	91	6
Total	1,024	1,042	2
Complementary			
Bananas	41	46	12
Cocoa and chocolate	14	12	-14
Coffee	416	341	-18
Rubber	59	42	-29
Other	140	99	-29
Total	670	540	-19
Total imports	1,695	1,582	-7

¹ Preliminary.

U.S. agricultural trade balance July-September
1971 and 1972

Item	1971	1972 ¹	Percentage change
	Million dollars	Million dollars	Percent
Exports	1,876	2,076	11
Imports	1,695	1,582	-7
Trade balance ...	181	494	173

¹ Preliminary.

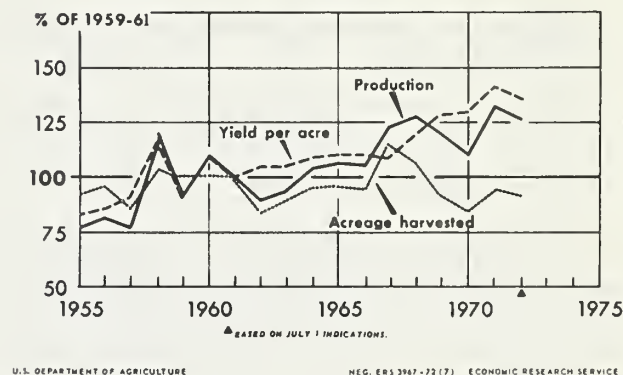
Grain Exports Spur Crop Utilization

The continued strength in wheat and feed grain exports provides a promising outlook for crops. Wheat exports, which will surpass previous record levels, are dominating the current situation and indicate a record disappearance level. Prices rose from a harvesttime low

of \$1.32 a bushel to \$1.89 in October and are expected to remain strong the remainder of the season. As a result, wheat is effectively priced out of the livestock-feed market with a near 30% reduction expected in feed usage during the 1972/73 crop year.

The 1972 wheat crop is estimated at nearly 1.6 million bushels, 5% below the 1971 harvest. Yield per acre is expected to average 32.6 bushels, 1.2 bushels below last year's record. With the smaller crop, and with total disappearance expected to reach 1.9 million bushels, 20% above previous record levels, a sharp drawdown in carryover to around 500 million bushels can be expected by the summer of 1973.

WHEAT ACREAGE, YIELD, AND PRODUCTION



With USSR purchases possibly exceeding the decline in their grain crop, it appears that Russia is continuing to place a higher priority than ever before upon meeting consumer needs for livestock products. At present virtually all of the imported wheat is of the milling type with the heavy feeding of wheat apparently maintained out of a Soviet crop of somewhat inferior quality. These factors, which put increased pressure on Soviet wheat production, would seem to indicate a bright outlook for U.S. exports of wheat and feed grains in the next few years.

Feed grains have benefited from the export situation. Feed grain exports could increase 5 to 10% above the 27 million short-tons of 1971/72 based on strong foreign import demand and sharply reduced exportable feed grain supplies outside the United States. Domestic use is projected to gain about 3 to 4% over 1971/72 because of small increases in the number of grain consuming animal units and favorable livestock-feed price ratios in the beef cattle, hog, and dairy sectors. The feed grain supply for 1972/73 will total about 242 million tons, slightly above last year's record volume. But some drop is expected in the carryover at the end of the marketing year. Nevertheless, the feed grain situation is in good balance between supplies and projected requirements. Feed grain prices will average stronger than in 1971/72 as corn and sorghum prices this fall are considerably above the levels of a year ago when record crops were harvested.

Stocks of grains

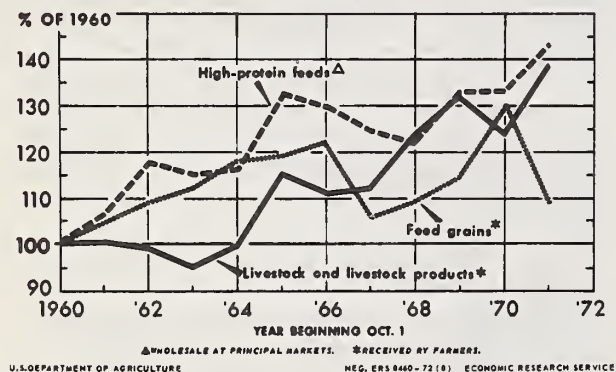
Grain and position	October 1, 1971	October 1, 1972	Percentage change 1972/71
	Million tons	Million tons	Percent
TOTAL FEED GRAINS			
On farms ¹	33	41	24
Off farms ²	18	21	17
Total	50	62	24
	Million bushels	Million bushels	Percent
WHEAT			
On farms ¹	834	739	-11
Off farms ²	1,047	1,139	9
Total	1,881	1,879	0
SOYBEANS³			
On farms ¹	21	12	-43
Off farms ²	78	60	-23
Total	99	72	-27

¹ Estimates of the Crop Reporting Board. ² Including grain owned by Commodity Credit Corporation. ³ As of September 1.

Totals may not add due to rounding.

This year's feed grain crop of 193 million tons is down about 6%, with reduced output of each grain. Corn production is down 5% and sorghum grain down 3%. Barley and oats are down 10% and 17%, respectively.

PRICES OF FEED GRAINS, HIGH-PROTEIN FEEDS, AND LIVESTOCK

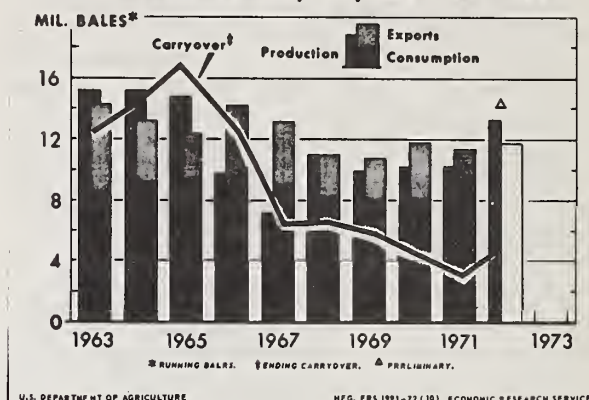


The 1972 cotton crop of 13.7 million bales (480 pounds net weight) is up from 10½ million last year, a 31% increase. Larger production reflects 15% more acres, the result of last spring's attractive cotton prices, and 14% higher yields due to favorable growing conditions across much of the Cotton Belt.

Disappearance of U.S. cotton during 1972/73 may top last season's 11½ million bales, reflecting improved export prospects. With a larger domestic supply, increased supplies available for U.S. export assistance programs, and greater anticipated cotton use abroad,

exports could advance about 5% above 1971/72. However, with the increased disappearance falling short of the increased production, carryover stocks may be up 2 million bales by next summer, up from the 3.4 million of a year earlier.

COTTON PRODUCTION, USE, AND CARRYOVER



A soybean crop, up 13% from last year, will more than offset reductions in carryover stocks, and soybean supplies in 1972/73 will total 1,389 million bushels, 10% above 1971/72 but below the record levels of 1969/70. Demand for soybeans remains strong and expected increases of as much as 20% in exports will hold carryover stocks next year to low operating levels. Soybean prices to farmers are continuing near record highs and for the entire season may average about 5% above the \$3 per bushel received in 1971/72.

With a tobacco crop of about the same size as last year and reduced carryover, a decline of 3% is expected in total supply of tobacco from 1971/72. Total disappearance may hold at the 1.9 billion pounds for the year just ending, so another inventory reduction can be anticipated. By early November, virtually all the flue-cured crop had been sold at a record season average price, 11% above a year ago.

Fresh fall vegetable production is estimated at 2% less than a year ago as smaller crops of cabbage and carrots offset slight gains in lettuce and celery. The late autumn seasonal price rise may not be as pronounced as last season. With the total processed vegetable supply only slightly larger than the quantity available a year ago, prices might strengthen further.

The fall potato crop is 7% smaller, reflecting production declines of 14% in the East and 16% in the Midwest. Production in the West is about the same. Average prices are expected to be substantially higher than in 1971/72, particularly in the East and Midwest.

Total fruit production may be characterized as one of contrasts. Citrus fruit production is expected to be up from last year following the short noncitrus production of the past summer and fall which was down 19% from a year earlier. Early indications are for a record orange

production for 1972/73, well above last year. Grapefruit supplies are expected to be down slightly from last year's record level. Apple supplies are moderately smaller than last year as the smaller crops in the East and Central States more than offset the substantial increase in Washington.

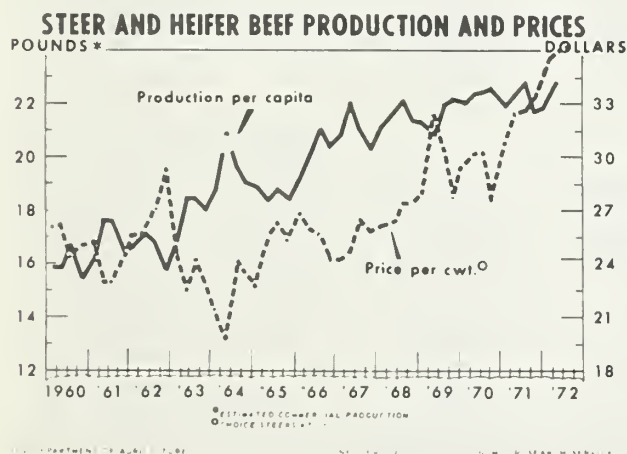
U.S. crop production: Index numbers of production of crops, 1971 and 1972

(1967=100)			
Item	1971 ¹	1972 ²	Percentage change
All crops ³	112	114	2
Feed grains	117	112	-4
Hay and forage	106	106	0
Food grains	107	102	-5
Sugar crops	122	136	11
Cotton	141	186	32
Tobacco	89	88	-1
Oil crops	119	136	14

¹ Preliminary. ² Indicated as of November. ³ Includes other products not included in the separate groups shown.

Output and Prices of Livestock Products

Output of livestock and products is picking up toward the end of this year but the total for the year will fall about 1% below 1971. Red meat output, led by the decline for pork will fall 2% below last year. A small gain for beef is in prospect. With slight decreases in total supplies of livestock products and strong consumer demand this year, farm prices of livestock and products will average around 14% above last year's level. In the first half of 1973, consumer demand is expected to remain strong, buoyed by increasing disposable incomes. Livestock output may be slightly higher than in early 1972.

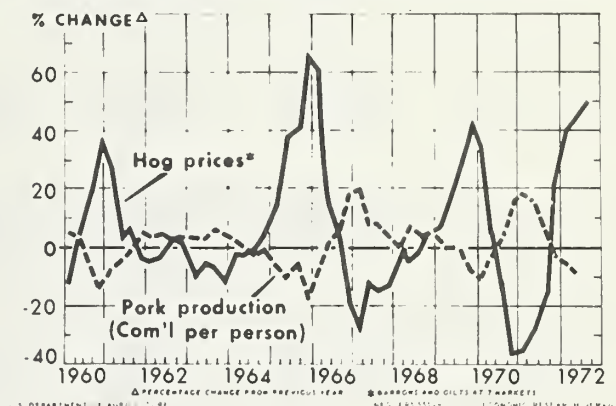


Fed cattle marketings during January-September were 5% above a year ago and cattle feeders planned a 7% increase in fall marketings compared with the same

period last year. With these somewhat larger supplies and heavier average weights, fed cattle prices in early November are around \$34 per 100 pounds (Choice steers, Omaha), about \$1.50 above a year ago but down from the midyear peak of \$39. Prices may show some strength in the winter. Fed cattle marketings in the first half of 1973 likely will be somewhat larger than a year earlier.

Hog slaughter is running much below a year ago, and the usual summer-fall price decline was somewhat dampened. Prices were mostly \$28 to \$29 per 100 pounds through the summer. The 7 market price of barrows and gilts in early November was around \$27.50 per 100 pounds, \$8.50 above a year earlier. Winter and spring prices may average near or above a year earlier.

CHANGES IN HOG PRICES AND PORK PRODUCTION



Lamb and mutton production through September 1972 was down slightly and is expected to continue below last year's levels. With smaller slaughter supplies in prospect, lamb prices will continue above a year earlier.

Although broiler production continues at record levels, prices this fall will average above last year. The strong demand which resulted from higher red meat prices and increasing disposable incomes will likely carry into the spring.

Change from a year earlier in livestock-feed price ratios

Year	Beef steer- corn	Hog- corn	Broiler- feed	Milk- feed
	Pct.	Pct.	Pct.	Pct.
1971/70				
I	-13.5	-48.9	-12.9	-5.1
II	-8.3	-39.9	0	-5.3
III	15.8	-9.5	7.1	-1.8
IV	41.7	57.0	4.0	3.9
1972/71				
I	35.1	82.5	11.1	8.3
II	29.4	79.8	-3.4	6.9
III	12.5	56.6	6.7	4.2

Table 3.--Supply-distribution and season average prices of selected major crops, 1969/70, 1970/71, 1971/72, and 1972/73

Item	Unit	Beginning : stocks	Imports : :	Production : :	Total : supply	Domestic : use	Exports : :	Total : use	Ending : stocks	Season : average price 1/
Feed grains										
1969/70.....	Mil. tons	50.0	0.4	174.6	225.0	155.4	21.2	176.6	48.4	2/1.15
1970/71.....	Mil. tons	48.4	.4	158.6	207.4	153.7	20.7	174.4	33.0	2/1.33
1971/72p.....	Mil. tons	33.0	.5	205.3	238.8	163.9	26.9	190.8	48.0	2/1.08
1972/73e.....	Mil. tons	48.0	.3	193.5	241.8	169.3	28.5	197.8	44.0	
Wheat										
1969/70.....	Mil. bu.	818.6	3.2	1,460.2	2,282.0	791.2	606.1	1,397.3	884.7	1.24
1970/71.....	Mil. bu.	884.7	1.1	1,370.2	2,256.0	788.3	737.5	1,525.8	730.2	1.33
1971/72p.....	Mil. bu.	730.2	1.1	1,639.5	2,370.8	873.5	632.5	1,506.0	864.8	1.31
1972/73e.....	Mil. bu.	864.8	1.0	1,559.0	2,424.8	767.0	1,125.0	1,892.0	532.8	
Rice										
1969/70.....	Mil. cwt.	16.2	.2	90.9	107.3	3/34.0	56.9	90.9	16.4	4.95
1970/71.....	Mil. cwt.	16.4	1.4	83.8	101.6	3/36.5	46.5	83.0	18.6	5.17
1971/72p.....	Mil. cwt.	18.6	1.1	84.3	104.0	3/35.6	57.0	92.6	11.4	5.24
1972/73e.....	Mil. cwt.	11.4	1.5	85.3	98.2					
Soybeans										
1969/70.....	Mil. bu.	324.4	0	1,126.3	1,450.7	788.0	432.6	1,220.6	230.1	2.35
1970/71.....	Mil. bu.	230.1	0	1,123.7	1,353.8	821.7	433.8	1,254.9	98.9	2.85
1971/72p.....	Mil. bu.	98.9	0	1,169.4	1,268.3	780.2	416.2	1,196.4	71.9	3.01
1972/73e.....	Mil. bu.	71.9	0	1,286.0	1,357.9					
Cotton 4/										
1969/70.....	5/ Mil. bales:	6.5	6/.1	10.0	16.6	8.0	2.9	10.9	5.8	21.09
1970/71.....	5/ Mil. bales:	5.8	6/.1	10.3	16.2	8.1	3.9	11.9	4.3	21.98
1971/72p.....	5/ Mil. bales:	4.3	6/.1	10.4	14.8	8.2	3.4	11.6	3.4	28.62
1972/73e.....	5/ Mil. bales:	3.4	6/.1	13.7	17.2	8.2	3.5	11.7	5.5	

1/ Dollars per bushel, except cotton which is cents per pound and rice which is dollars per hundredweight. 2/ Price for corn. 3/ Includes the following statistical discrepancy 1969/70, 0.9, 1970/71, 2.2, and 1971/72, 0.2 mil. cwt. 4/ Production based on ginnings between August 1 and July 31. 5/ 480 pound net weight bales. 6/ Includes city crop.

1972/73 based on recent crop reports and disappearance estimates. Details may not add to totals due to rounding. p. Preliminary. e. Estimated. n.a. - Not available.

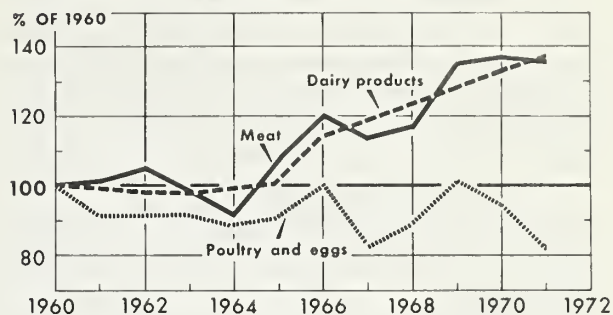
The 1972 turkey crop is the largest on record, up 7% over last year. Although weaker prices were associated with expanded output in the first half of the year, demand remains strong and with seasonal increases in prices, the average price for the year will remain near that of 1971.

While the number of eggs per layer continues to set new monthly records a smaller laying flock in the fall and winter will more than offset further increases, keeping egg output below last year's level. Egg prices have been increasing and for fall and winter will run well above the depressed prices of a year earlier.

Milk production in 1972 is running about 1.5% above last year. Increases in milk output per cow have more than offset the 1% drop in milk cow numbers. Farm prices for milk are expected to average around \$6.05 per 100 pounds in 1972, up 3% from a year earlier. The higher prices and increased marketings will mean that milk producers will get almost a 5% increase in cash receipts over 1971. Market demand and milk prices likely will rise somewhat next year. There is a good

supply of replacement heifers, but rising feed prices, poor quality forage in some areas, and any tightening in the labor situation may limit the prospective rise in 1973 milk output.

PRICES RECEIVED BY FARMERS FOR SELECTED LIVESTOCK AND LIVESTOCK PRODUCTS



U.S. DEPARTMENT OF AGRICULTURE

NEG. ERS 7813-72 (11) ECONOMIC RESEARCH SERVICE

Table 4.--Production and prices received by farmers for major livestock and livestock products, 1969, 1970, 1971, and third quarters of 1971 and 1972

Item	Unit	Annual			Third quarter	
		1969	1970	1971	1971	1972 <u>1/</u>
Production <u>2/</u>						
Beef and veal.....	Mil. lb.	21,831	22,273	22,450	<u>3/</u> 5,704	<u>3/</u> 5,661
Pork.....	Mil. lb.	12,953	13,436	14,795	<u>3/</u> 3,441	<u>3/</u> 3,063
Lamb and mutton.....	Mil. lb.	550	551	554	<u>3/</u> 129	<u>3/</u> 124
Chickens.....	Mil. lb.	8,054	8,660	8,720	<u>3/</u> 2,046	<u>3/</u> 2,160
Turkeys.....	Mil. lb.	1,614	1,757	1,809	<u>3/</u> 634	<u>3/</u> 675
Eggs.....	Mil. lb.	9,038	9,189	9,385	2,302	2,265
Milk.....	Bil. lb.	116.3	117.1	118.6	<u>4/</u> 29.6	<u>4/</u> 30.1
Prices received by farmers						
Cattle.....	Dol./cwt.	26.20	27.10	29.00	29.00	33.80
Hogs.....	Dol./cwt.	<u>5/</u> 22.20	<u>5/</u> 22.70	<u>5/</u> 17.50	18.50	27.90
Lambs.....	Dol./cwt.	27.20	26.40	25.90	26.80	30.00
Broilers.....	Ct./lb.	15.2	<u>5/</u> 13.6	<u>5/</u> 13.7	14.6	15.3
Turkeys.....	Ct./lb.	22.4	22.6	22.1	22.2	21.6
Eggs.....	Ct./doz.	40.0	<u>5/</u> 39.1	<u>5/</u> 31.4	30.2	31.4
All milk (sold to plants).....	Dol./cwt.	5.49	5.71	5.87	5.79	6.01

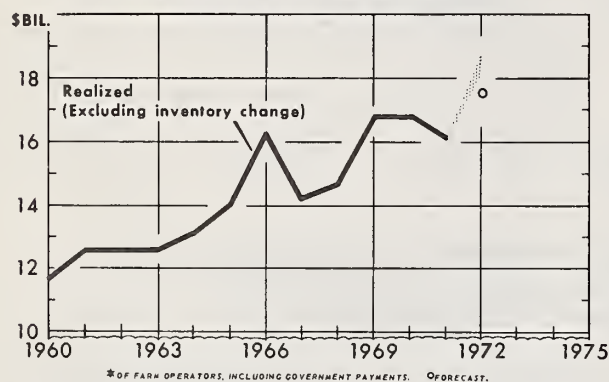
1/ Preliminary. 2/ Data for 50 States except where noted. Carcass weight production for red meats; ready-to-cook for poultry, and shell-weight for eggs. 3/ Data for 48 States. Commercial slaughter only. 4/ Based on monthly data. 5/ Marketing year average December-November.

Farm Income

Cash receipts from farm marketings in 1972 will probably be around \$57½ billion, compared with \$53.1 billion in 1971. Receipts from crops are expected to be slightly above the 1971 level of \$22.6 billion. Livestock and products receipts are forecast at \$34.7 billion, up more than \$4 billion from 1971.

With the significant increases in cash receipts and direct government payments up around \$1 billion, realized gross farm income will probably rise around \$5½ billion to \$65 billion. Production expenses are expected to increase by close to \$3 billion, leaving realized net income for 1972 more than \$2¾ billion over last year.

REALIZED NET FARM INCOME *



U.S. DEPARTMENT OF AGRICULTURE

NEG. ERS 5256-72 (11) ECONOMIC RESEARCH SERVICE

The outlook for farm receipts and net incomes for 1973 is bright. With increased consumer disposable incomes and strong demand, livestock prices should remain at the current levels for much of next year. The highly optimistic export picture should keep 1972/73 crop prices at favorable levels.

Farm Inputs

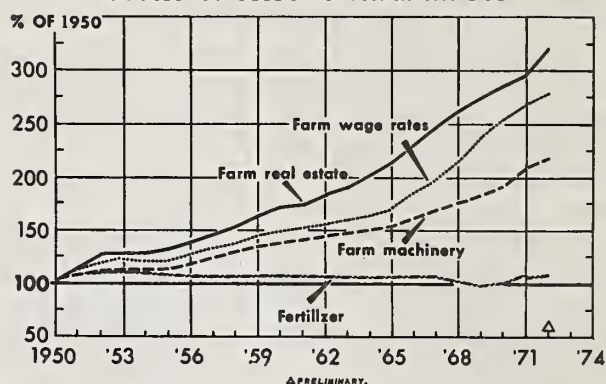
The expectations of climbing production expenses may be the major dark cloud on the farmers' 1973 economic horizon. Prices paid by farmers for production items, interest, taxes, and wage rates for 1972 are forecast at more than 5% above last year and the expectation is for the trend to carry into 1973. Interest rates, wages, and taxes will be affected as the economy expands.

Prices have averaged higher than a year earlier for all production components. Prices paid for feeder livestock advanced 3% from September to October to a record level, 21% above a year earlier.

The composite farm wage rate on October 1, 1972, was reported \$1.65 per hour, up 7% from last year. Wage

rates increased in all regions with the largest gains in the South Atlantic and East South Central States where wages were more than 9% over last year.

PRICES OF SELECTED FARM INPUTS



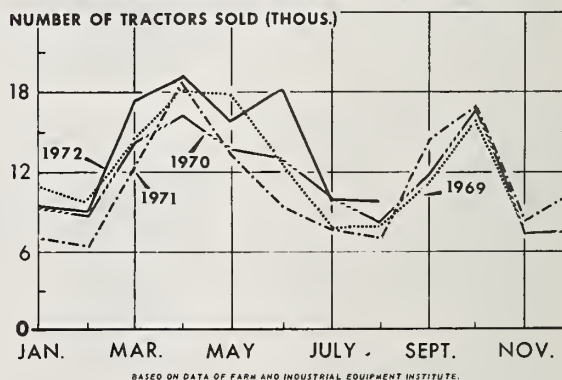
U.S. DEPARTMENT OF AGRICULTURE

NEG. ERS 3915-72 (8) ECONOMIC RESEARCH SERVICE

Farm real estate values increased 8% during the year ended March 1, 1972 bringing the total value of farmland and buildings to an estimated \$228.6 billion. Values increased in all regions, ranging from 10% in the Appalachian and Delta States to 5% in the Northern Plains.

Sharp increases in farm incomes, optimistic price outlooks for next year, and the 7% investment credit, point to continued high retail sales of farm tractors and machinery. Sales of farm tractors through August were up 32% according to the Farm and Industrial Equipment Institute. Sales in the 100 horsepower and above category were 52% higher. Machinery sales in total have improved this year but not nearly as much as tractor sales. Sales of hay balers were especially strong with sales through August 16% above the same period a year ago.

RETAIL SALES OF FARM TRACTORS



U.S. DEPARTMENT OF AGRICULTURE

NEG. ERS 8114-72 (10) ECONOMIC RESEARCH SERVICE

GENERAL ECONOMIC SITUATION

The economy continues to move ahead at a brisk pace this fall. Gross national product rose 8.3% (seasonally adjusted annual rate-s.a.a.r.) in the third quarter, less than the 11% in the second quarter, but still, consistent with the economic recovery phase of the business cycle. Prices increased 2.2%, leaving real output 6% higher than in the second quarter (figure 2).

Consumer spending continues to account for the major part of the increase in GNP. Fixed investment is still contributing more than in late 1971 and inventory accumulation is holding up well. Nonresidential investment so far this year has been rising at the most rapid pace since 1968. Investment in residential structures, though rising more slowly than last year, is still at record levels and more than 20% above the third quarter of 1971.

Government purchases of goods and services also have slowed from the extremely rapid rises late last year and early this year. The balance of trade deficit continues to drag down total GNP but there is some evidence that the corner has been turned with a significantly smaller deficit in net exports in the third quarter than in the first two quarters of the year.

Major GNP components, change from previous quarter

Item	1972		
	I	II	III ¹
	Billion dollars	Billion dollars	Billion dollars
Total change in GNP	31.0	30.3	22.8
Consumption	15.6	17.3	14.7
Private nonresidential fixed investment	6.3	3.1	1.9
Housing	4.3	1.2	1.4
Inventory ²	-1.3	4.6	.7
Net exports	-2.5	-.6	1.8
Government	8.5	4.7	2.5

¹ Preliminary. ² See footnote text table below.

The rise in the economic activity has been accompanied by an 8.7% (s.a.a.r.) increase in industrial production since last December 1971, a sharp contrast to the 3.1% from December 1970 to December 1971. Total employment also is rising and has increased by 2.6 million persons over a year ago. The unemployment rate has declined to 5.6% in the third quarter and is below 1971 levels.

Price increases at both wholesale and retail levels are running smaller than in the first half of 1971, but prices of a few goods and services are still increasing.

Money supplies rose very sharply early in the year, but the rate of increase has slowed since August and demand deposits and currency are rising much more slowly. With general demand for funds continuing relatively strong and money supplies easing, short-term

interest rates have been rising. However, long-term rates have not yet reacted significantly to the tightening money markets.

Strong Growth Ahead

Prospects are for above-average rates of economic growth through 1973. The economy is still recovering from the effects of the 1970/71 recession and improvements in consumption and investment during the past year likely will stimulate larger spending as consumers and businessmen gain more confidence and capacity is utilized more fully. In addition, the effects of the expansive monetary and fiscal policies of early 1972 will overflow into the first half of 1973. The newly created activity will absorb some of the unemployment and also raise productivity. As a result consumer incomes and corporate profits will hit new records. Added boosts in income will come from larger social security payments and the unusually large tax refunds in early 1973 resulting from the over-withholding in 1972. Investment in plant and equipment will be up sharply and businessmen will continue adding to inventories to cover the rosy prospects of rising sales. Expanded foreign demand also will contribute to the pickup in the economy.

The detractors from this bright picture include an increase in social security taxes in 1973, the possibility of resumption of rapid price increases, and sharply rising interest rates. Nevertheless, gross national product in current dollars will likely average about 9½% above the estimated \$1,150 billion average in 1972. Although some acceleration in price increases is likely, real output may grow around 6%, about the same as this year.

Consumer Spending Up Again

American consumers spent \$728 billion (s.a.a.r.) in the third quarter (figure 2). The \$15 billion gain over the second quarter was slightly less than the second quarter increase but still well above the 1971 pace. Services accounted for a major part of the increase. Expenditures for durables rebounded, partly because of a stepup in new car sales, and helped maintain total spending despite a slowdown in the rise of nondurable expenses. Food outlays rose again but much more slowly than the sharp runup in the second quarter.

Since the third quarter of 1971, total consumer spending has risen 8½% and has provided a significant boost to the economic recovery. Consumers apparently have eased their tight grip on savings and have expanded their credit considerably over the past year. As a result, total outlays have risen more than disposable incomes.

Spending through mid-1973 probably will continue its rapid gain because of large prospective incomes and

Table 5.--General economic activity

(Quarterly data at seasonally adjusted annual rates)

Item	Year 1971	1971	1972		
		IV	I	II	III 1/
		Billion dollars			
Gross national product.....	1,050.4	1,078.1	1,109.1	1,139.4	1,162.2
Gross national product (1958 dollars).....	741.7	754.5	766.5	783.9	795.3
Disposable personal income.....	744.4	758.5	770.5	782.6	798.7
Personal consumption expenditures.....	664.9	680.5	696.1	713.4	728.1
Durable.....	103.5	106.1	111.0	113.9	118.4
Nondurable.....	278.1	283.4	288.3	297.2	301.4
Services.....	283.3	290.9	296.7	302.4	308.3
Personal savings.....	60.9	59.3	55.7	50.1	51.3
Net government receipts.....	215.9	222.3	241.7	247.3	---
Government purchases.....	232.8	240.9	249.4	254.1	256.6
Federal.....	97.8	100.7	105.7	108.1	106.2
State and local.....	135.0	140.2	143.7	146.0	150.4
Deficit or surplus (on income and product accounts).....	-16.9	-18.7	-7.7	-6.8	---
Gross private domestic investment.....	152.0	158.8	168.1	177.0	181.0
Fixed investment.....	148.3	157.2	167.7	172.0	175.3
Residential.....	42.6	47.3	51.6	52.8	54.2
Nonresidential.....	105.8	109.8	116.1	119.2	121.1
Change in business inventories..	3.6	1.7	.4	5.0	5.7
Gross retained earnings.....	109.9	117.2	115.9	124.8	---
Excess of investment.....	-42.1	-41.6	-52.2	-52.2	---
Net exports of goods and services.....	.7	-2.1	-4.6	-5.2	-3.4
Per capita disposable personal income (1958 dollars).....	2,679	2,698	2,716	2,739	2,774
Total civilian employment (millions) 2/.....	79.1	80.0	80.8	81.4	82.0

1/ Preliminary.2/ U.S. Department of Labor.

U.S. Department of Commerce.

because price advances will be limited to some extent by price control machinery. Postponement of price increases for autos should stimulate sales this fall and winter, enabling the durable goods sector to maintain its recent strength. A slowing in housing construction may mean a slower rate of increase in sales of household durables. Meanwhile auto sales will increase sharply. Expenditures for nondurables and services will continue to increase though at a slower pace than durables. Nondurable prices may rise more than those for durables. Outlays for food will likely rise at a 5½% rate and those for clothing and tobacco will probably gain at least as much.

GNP and final sales, change from previous quarter

Year	GNP	Final sales	Inventory change ¹
	Billion dollars	Billion dollars	Billion dollars
1969: I	16.8	17.9	-1.2
II	16.5	15.4	1.2
III	18.2	15.7	2.5
IV	7.2	12.3	-5.1
1970: I	9.1	13.0	-4.0
II	13.7	9.1	4.8
III	14.6	14.7	-1.1
IV	3.4	3.9	-0.5
1971: I	33.7	34.4	-0.8
II	19.6	17.9	1.7
III	13.9	19.2	-5.3
IV	21.2	20.8	0.4
1972: I	31.0	32.2	-1.3
II	30.3	25.8	4.6
III ²	22.8	22.2	0.7

¹ Represents the difference in the change in business inventories. For example, the change in business inventories in the third quarter of 1972 (\$5.7 billion) less the change in the second quarter of 1972 (\$5.0 billion) equals plus (\$0.7 billion).

² Preliminary.

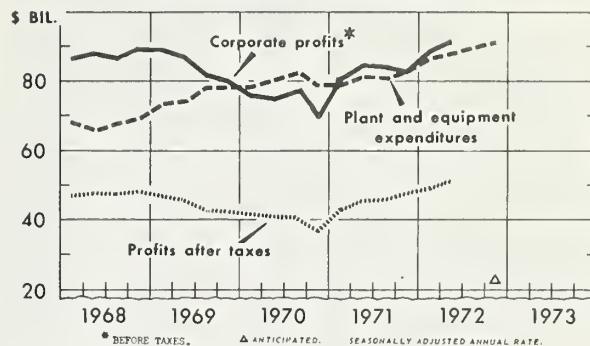
Business Investments Rise

Capital spending slowed further in the third quarter. Although investment in producers' durable equipment inched up again, spending on nonresidential structures actually declined. Investment in residential structures picked up slightly as did the investment in inventories. About \$5.7 billion was added to inventories in the third quarter compared with \$5.0 billion in the second quarter and \$1.3 billion a year ago. With sales moving ahead rapidly, inventories in relation to sales have dropped sharply suggesting continued room for sharp buildups in future months and offering another potential source of sustained economic growth well into 1973. Compared with other recoveries in the postwar period, inventory accumulations have been weak in the 1971/72 period.

For all of 1972 businessmen may spend 9.7% more for new plant and equipment compared with the 1.9% increase last year. Capital spending likely will continue strong well into 1973, particularly if demand prospects materialize and capacity utilization rates continue to rise. Profits are once again setting new records and other

sources of funds are well supplied. As a result, businessmen seem reasonably optimistic about executing plans to add to their existing capacity. The major deterrent at present is the recent rise in short-term interest rates and a further rise expected in the next few months.

CORPORATE PROFITS AND PLANT AND EQUIPMENT EXPENDITURES



U.S. DEPARTMENT OF AGRICULTURE

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Government Expenditures and Receipts

Federal, State, and local governments purchased \$257 billion (s.a.a.r.) worth of goods and services in the July-September quarter, a 10% rise over the same period last year. State and local governments accounted for most of the increase.

The Federal deficit was over \$22 billion in fiscal year 1972 which ended in June. With scheduled transfer payments increasing and large tax refunds due in early calendar 1973, the deficit will likely reach \$25 to \$30 billion for the year ending next June 30. Legislation to limit Federal spending was recently defeated in Congress.

The Revenue Sharing Act, passed in September, is giving State and local governments additional revenues. Retroactive payments to cover all of 1972 could push total payments to around \$8 billion for this year. Around one-third of the Federal payments can be used by the jurisdictions as they see fit, while the rest must be used as specified by the donor.

International Trade and Balance of Payments

Net exports of goods and services ran a deficit of \$3.4 billion in the third quarter this year. Although this was still a sizable drag on the economy, it was a major improvement over the 2 earlier quarters when the deficits were \$4.6 billion and \$5.2 billion. Both exports and imports rose considerably, but exports gained more, causing the deficit to decrease.

The U.S. balance of payments deficit also has improved from earlier in the year, partially reflecting international monetary adjustments, slowing wage and price advances, and a step-up in productivity gains. Inflation abroad, especially in Europe, has strengthened

the U.S. competitive position. Net outflows of long and short-term capital also have been reduced, helping the U.S. balance.

Federal receipts and expenditures, national income basis¹

Item	1971	1972	
	Second half	First half	Third quarter
	Billion dollars	Billion dollars	Billion dollars
Receipts	201.0	223.2	³ 229.2
Personal tax	91.8	106.6	108.9
Corporate profits tax ...	32.2	34.6	³ 36.2
Indirect business tax ...	20.4	19.8	20.1
Social insurance	56.6	62.2	63.7
Expenditures	224.8	241.4	243.1
Goods and services	99.3	106.9	106.2
Transfer payments	77.0	79.9	82.4
Grants to State and local governments	30.3	35.2	34.6
Net interest paid	13.4	13.4	13.6
Subsidies less surplus ...	4.8	5.8	6.4
Surplus or deficit	-23.9	-18.2	-13.9

¹ Calendar years, seasonally adjusted annual rates. ² Preliminary. ³ Estimated.

A reform of the international monetary system is being sought by member countries of the International Monetary Fund. Officials met in Washington in September to discuss the problems of reforming the international monetary system. Considerable effort is being devoted to defining the role of the dollar and increasing the role of special drawing rights. However, a long review process will probably take place before any plan becomes effective. The Committee of 20 (Board of Governors on Reform on the International Monetary System and Related Issues) was instituted and will periodically meet and report on progress.

Industrial Production

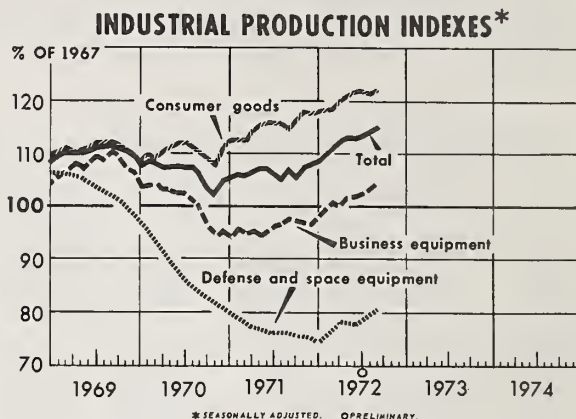
The output of the Nation's mines and factories, as measured by the Federal Reserve Board's production index, increased 0.6% from August to September and offers more evidence that the economy is still in a period of recovery. The index is now 7.6% higher than in September 1971. The most recent increase was led by a 1.3% increase for business equipment followed by a 1% rise for the mining and utilities grouping.

The consumer sector continues to show progress, setting new records each month. Output of business equipment seems to be picking up steam though it still has not regained the peak level of late 1969. Production of defense equipment has been rising slowly in recent months from the trough early this year, when it was nearly a third below the cyclical high in early 1969.

Employment and Income

Expanding output of goods and services has spurred growth in employment and the labor force. In October

employment reached nearly 82½ million workers (s.a.a.r.), almost 3 million more than last year at this time. Nevertheless, the unemployment rate had been resisting the expected decline largely because of an unusually large rise in the total labor force. In October, however, the unemployment rate remained at 5.5%, though down from the nearly 6% rates at the beginning of 1972 (figure 4).



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Disposable incomes increased \$16 billion (s.a.a.r.) in the third quarter, the largest increase in more than a year. Consumers chose to spend the same proportion of their income as in the second quarter so the personal saving rate remained 6.4%. Although this is still high compared with other periods it is well below the 8% rates in 1970 and 1971 (figure 4).

Prospects for income are bright. Twenty percent larger social security checks are being distributed this fall and will amount to a nearly \$10 billion increment in the annual rate in the fourth quarter. This new flow of money, coupled with larger payrolls, may mean a \$20 billion increase (s.a.a.r.) in the final quarter of 1972.

Major personal income components, change from previous quarter

Item	1972		
	I	II	III ¹
	Billion dollars	Billion dollars	Billion dollars
Personal income	25.5	15.1	17.4
Wages and salaries	22.1	12.5	9.9
Manufacturing	6.1	5.3	2.4
Nonmanufacturing	10.5	5.5	4.9
Government	5.5	1.7	2.6
Other income	3.7	1.8	6.1
Transfer payments	2.4	1.4	2.1
Social Insurance payments (minus)	2.7	.5	.6
Personal tax payments	13.5	3.0	1.3
Disposable personal income ..	12.0	12.1	16.1
Personal outlays	15.7	17.6	14.9
Personal savings	-3.6	-5.6	1.2

¹ Preliminary.

Prices

The GNP price deflator increased at an annual rate of 2.2% in the third quarter, slightly more than in the preceding quarter, but somewhat less than the 2.7% rise from the same quarter of 1971.

The Consumer Price Index rose 3.5% (s.a.a.r.) in the third quarter; it rose 3.1% from the same quarter a year earlier. Food accounted for much of the quarter-to-quarter rise, but prices of other goods and services also were rising at nearly a 3% annual clip.

The Wholesale Price Index jumped 1.4% in the July-September quarter (figure 3). The equivalent 6% annual rate was well above the 4½% increase from the third quarter of 1971. Major factors in the rise were tight supplies of food and hides and the extended housing boom which is taxing production facilities in the lumber industry. Industrial commodity prices have been rising at a pace much slower than in 1971, despite fuller use of industrial capacity.

As output continues to expand and excess capacity is put to use, price pressures will begin to build in 1973 and faster increases in prices may be in store. The extent of the increases will depend in part on the success of the wage-price control programs. Even so, a rise of 3% or more in the price indicators may be in prospect in 1973.

Money and Credit

The Nation's money aggregates were expanding rapidly in the first half of this year, but strong demand for credit and an apparent tightening in monetary policy

have pushed up short-term interest rates in recent months. With businessmen expanding their plans for investment in plant and equipment and further increases in output in prospect, the money markets will likely get tighter. However, a repeat of the 1969/70 "credit crunch" is not expected in the next few months. Larger cash flows together with some expected easing in the housing market, as well as a slowing in net credit expansion by consumers, will help to keep interest rates and credit availability from choking off the economic expansion next year. Long-term interest rates thus far have not risen much, so the gap between the short and long-term rates has narrowed considerably. If short-term rates continue rising then some increases may show up in the long-term rates.

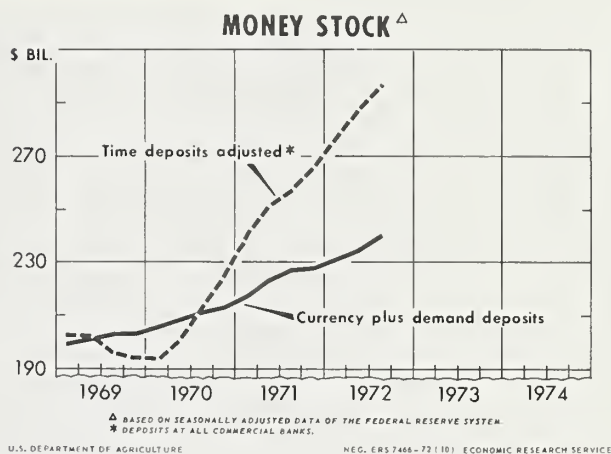


Table 6.—Consumer Price Index (1967=100)

Year and month	All items Index	Change from previous month annual rates	Change from year-ago	Food Index	Change from previous month annual rates	Change from year-ago
	1967=100	Percent	Percent	1967=100	Percent	Percent
1972						
January	123.2	1.0	3.4	120.3	0	4.2
February	123.8	5.9	3.7	122.2	19.0	5.4
March	124.0	1.9	3.5	122.4	1.9	4.6
April	124.3	2.9	3.4	122.4	0	3.9
May	124.7	3.8	3.2	122.3	-1.0	3.5
June	125.0	2.9	2.9	123.0	6.8	3.2
July	125.5	4.8	3.0	124.2	11.8	3.7
August	125.7	1.9	2.9	124.6	3.8	3.8
September	126.2	4.8	3.3	124.8	1.9	4.8



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